

IN THE SPECIFICATION:

Please amend paragraph [0073] of the present specification as follows:

[0073] Step A: Transcode the P frame at 122 using a process as in a T2 transcoder. Obtain its rate (the consumed bit count designated by R(P)) and distortion (such as PSNR (Peak Signal-to-Noise Ratio) or SAD (Sum of Absolute Difference)) designated by D(P)) in comparison with the input down-sampled video frame.

Please amend paragraph [0077] of the present specification as follows:

[0077] Step E: Compare the sum (or average) distortion $D(B)+D(P)$ and $D(S)+D(P_2)$ at 127. Since they consume about the same amount of bits, the approach with the smaller sum of distortion is preferred. If the D/B P/B ($D(B)+D(P)$) approach is chosen at 128, i.e., both frames are transcoded, and finally the P frame is stored to the reference frame buffer at 129, and the process proceeds to the next sub-GOP. Otherwise, if the B frames are skipped and the P frame is encoded, i.e., the S/ P_2 P_2/S approach is chosen at 130, and the P_2 frame is transcoded, while the S frame is a skipped frame, and the P_2 frame is stored to the reference frame buffer at 129, and the process proceeds to the next sub-GOP.